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RR RUEHLH RUEHPW  
DE RUEHIL #3042/01 3560230  
ZNR UUUUU ZZH  
R 220230Z DEC 09  
FM AMEMBASSY ISLAMABAD  
TO RUEHC/SECSTATE WASHDC 6553  
INFO RHEFDIA/DIA WASHINGTON DC  
RHEFSNG/HMSNG WASHINGTON DC  
RHEFHOT/HOTR WASHINGTON DC//USDAO ISLAMABAD PK//  
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//  
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//  
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//  
RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//  
RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//  
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL  
RHMFISS/CDRUSAREUR HEIDELBERG GE//AEAGB-IAD//  
RUEAIIA/CIA WASHINGTON DC//DDI/OEA//  
RUEPVAA/COMJSOC FT BRAGG NC  
RHMFIUU/COMSOCCENT MACDILL AFB FL//SOCJ2/HSE//  
RHEFDIA/DIA WASHINGTON DC//DHO-3//  
RHEFDIA/DIA WASHINGTON DC//MIO-4//  
RUETIAA/DIRNSA FT GEORGE G MEADE MD//M112/S2132HT//  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK  
RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//  
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH  
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//  
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//  
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA  
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//  
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//  
RUCXONI/ONI WASHINGTON DC//32/211//  
RUEALGX/SAF WASHINGTON DC  
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//  
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//  
RUEPGAA/US SURVEY DIV SHAPE BE  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL  
RUEHIL/USDAO ISLAMABAD PK  
RUCQSAB/USSOCOM INTEL MACDILL AFB FL  
RUEHLO/AMEMBASSY LONDON 2040  
RUEHNE/AMEMBASSY NEW DELHI 5911  
RUEHBUL/AMEMBASSY KABUL 1323  
RUEHLH/AMCONSUL LAHORE 8318  
RUEHKP/AMCONSUL KARACHI 2719  
RUEHPW/AMCONSUL PESHAWAR 7379  
RUEHRC/DEPT OF AGRICULTURE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 04 ISLAMABAD 003042

SENSITIVE  
SIPDIS

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TAGS: [ECON](#) [ETRD](#) [EFIN](#) [EAGR](#) [EINV](#) [ENRG](#) [PREL](#) [PK](#)

SUBJ: BI-WEEKLY REPORT ON ECONOMIC ISSUES, 16 DECEMBER, 2009

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TOP STORIES  
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1. (SBU) Asian Development Bank (ADB) okays eight rental power plants (RPPs). On December 10, Business Recorder reported that the ADB had recently completed its assessment of the fourteen signed RPP projects. Of the fourteen, the ADB cleared only eight rental power projects (RPPs) with a total capacity of 1,156MW which had reached a stage of contract fulfillment where they could not be discontinued without legal ramifications. Their estimated commissioning dates are from January to June 2010. The ADB's final report is due for public release on January 8, following a detailed presentation on preliminary findings to the GOP on December 22.  
(Comment: The ADB audit, conducted jointly with the Ministry of Finance, refrained from criticizing the RPP contracting process but concluded that eight RPPs would be sufficient to fill the short-term

power generation gap.)

12. (SBU) The Federal Board of Revenue (FBR) pursuing efforts to collect back taxes. On December 1, Business Recorder reported that the FBR has set January 31 as the official deadline for officials from the FBR Inland Revenue and Enforcement Division to recover these arrears from registered firms, business units and corporate entities. It is currently working on devising an "Arrears Recovery Plan" to include the creation of an "Arrears Monitoring System" with the aim of facilitating this process.

(Comment: Tax collection represents one of the major IMF targets that the GOP failed to meet during the most recent IMF review. This initiative represents a willingness to address the problem, whether or not the GOP has the will and capacity to follow through remains to be seen.)

13. (SBU) Foreign remittances rise by 29 percent. On December 11, Business Day reported that during the first five months (July-November) of the current fiscal year, remittances increased year-on-year by over 29 percent to \$3.8 billion. The highest inflows during this period were from UAE, United States, and Saudi Arabia.

(Comment: Remittances via the formal sector continue to increase and reach record numbers. Several initiatives taken by the State Bank of Pakistan (SBP) to increase regulation and oversight of money lenders, as well as improving the efficiency of banks in processing remittances, seem to be working.)

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14. (SBU) Pressure group occupies North West Frontier Province (NWFP) gas wells. On December 13, Dawn reported that a pressure group led by former Member of the National Assembly, Shah Abdul Aziz, occupied two new gas wells on recently discovered fields in the Karak district from December 11-13 interrupting supply and forcing top provincial officials to mediate their terms of withdrawal. Armed men from the Khattak Ittihad, a group composed of local residents, occupied wells recently drilled by Hungarian oil company MOL in western Karak. The group lifted its occupation only after an agreement that NWFP Chief Minister Amir Haider Hoti would mediate the dispute. In a December 14 meeting, Hoti agreed that the provincial government would pay to extend gas distribution lines to several isolated villages in western Karak near the gas fields and MOL agree to provide free gas to villages within 3 miles of each of the wellheads.

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STOCK MARKET  
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15. (SBU) Karachi Stock Exchange (KSE)-100 Index ended the week of December 11 at 9,037.30, which represents a 0.3 percent increase from the previous week's close. Overall market capitalization decreased slightly from \$31.20 billion to \$31.10 billion.

(Comment: Despite reports by Moody's that the economy is stabilizing and the external liquidity situation improving, the deteriorating security environment and structural problems in the power sector continue to put pressure on the economy; however, reports of increased oil and gas production from the Manzalai fields in Sindh and a 20 percent increase in remittances in November buoyed investor confidence.)

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ENERGY & POWER  
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16. (SBU) Renewable energy power projects: SBP introduces financing facility. On December 1, the SBP introduced a financing facility for renewable energy power projects of up to 10 Mw with preference given to projects in underdeveloped parts of the country. According to a local circular, sponsors of power projects will be able to use the financing facility through banks for the purchase of new,

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imported and locally manufactured, plant machinery and equipment. However, financing will only be available to prospective sponsors who have met the Alternative Energy Development Board (AEDB) and the GOP's Renewable Energy Policy requirements.

(Comment: Many banks are not funding energy related projects, stating that their loan portfolios are already too heavily weighted to power projects. This new facility may help to inject some much needed liquidity into the sector.)

17. (SBU) Public transportation workers stage strike in Karachi. Business Recorder reported on December 10 that the Karachi Transport Ittehad (KTI), a local union for transport workers, had called for a strike to voice their discontent with the recent increase in local fuel prices. According to the report, 70 percent of bus operators stayed off the roads forcing commuters to rely on cabs and rickshaws. Irshad Bukhari, President of the KTI, indicated that the association planned to call another strike during the first week of January, adding that the strike's end date would be contingent on the Oil and Gas Regulatory Authority's (OGRA) willingness to reduce oil prices.

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TEXTILES  
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18. (SBU) Shortage of cotton yarn sparks minor demonstration. On December 7, Dawn reported that factory owners and employees held a demonstration in Faisalabad to protest the recent hike in the price and limited availability of cotton yarn on the local market. According to Ikhtlaq Ahmad, Chairman of the All Pakistan Cotton Power Looms Association, the price of cotton yarn and polyester cotton yarn has increased by 30 to 40 percent over the last five months. He added that the excessive export of quality cotton yarn to neighboring countries such as China and Bangladesh was further exacerbating the problem. To date 50,000 power looms have had to shut down and 40,000 have had to draw down their operations due to their inability to acquire yarn on the domestic market. (Comment: On the one hand, Pakistan's willingness to allow market signals in yarn is a positive development. On the other hand, the value-added textile industry is squeezed by rising input and energy costs. These could negatively affect the textile industry's ability to honor contracts with international buyers. Since the textile industry contributes over 60 percent of the country's total

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exports, the situation does not bode well for Pakistan's balance of payments and foreign exchange reserves.)

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TRANSPORTATION  
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19. (SBU) National Highway Authority (NHA) awards Chinese firm \$118 million motorway crossing contract. According to Business Recorder, the China Water and Electric Company would be responsible for undertaking the 36 mile Faisalabad-Gojra stretch of the Faisalabad-Multan motorway project, consisting of four interchanges, nine flyovers and nine bridges. The construction is expected to take approximately 3 years. The Asian Development Bank will shoulder 85 percent of the \$118 million project costs, with the GOP covering the remaining 15 percent of the expenses.

PATTERSON